

City of Detroit

CITY COUNCIL

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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director *ICJ.*

DATE: June 12, 2007

RE: Detroit Edge Tool Company Request for a PA 328 of 1998 Tax Abatement for New Personal Property **(For today's 10:30 A.M. Discussion) Recommend Approval**

Detroit Edge Tool Company is making an investment of \$214,400 in new equipment and is asking for Council approval for PA 328 tax abatement. This abatement allows for 100% abatement of property taxes on new personal property (equipment and machinery).

Attached are responses from Detroit Edge Tool to my questions on this request.

As can be seen, Detroit Edge Tool has conducted business in Detroit since 1885, or 122 years. The company provides machining and assembly services to the machine tool and metal forming, aerospace, scrap and computer chip/flat screen TV industries. The company faces stiff foreign competition and must implement cost containment measures to remain competitive.

Detroit Edge Tool employs 64 people, of whom 8 live in the City and of whom 17 are people of color or white female. Several of these individuals are in management.

In addition, the company has an approved apprenticeship program by the State of Michigan. Detroit Edge Tool also is involved in several programs benefiting the City of Detroit. These programs are enumerated in the response to question 5.b.

We feel this new piece of equipment helps Detroit Edge Tool to retain the 64 people and remain competitive. The company generates approximately \$55,000 annually in income tax revenue for the City. The City would lose approximately \$2,600 annually from the 100% abatement on the new equipment costing \$214,400, if Council approves the abatement.

We feel it is cost beneficial for Council to approve this abatement and recommend its approval.

During Council's line of questioning, however, Council may inquire how much in personal property taxes Detroit Edge Tool currently pays the City. It should be noted that the company has received eleven PA 198 tax abatements since 1978. In addition, Council may inquire why the company did not first seek PA 198 abatement for this equipment, which applies to new personal property as well. Most likely, however, their answer will revolve around the economics. Given the small size of this equipment investment, the total impact on the General Fund is not astronomical.

Attachments

cc: Council Divisions
Auditor General's Office
Roger Short, Chief Financial Officer
Pamela Scales, Budget Director
Douglass Diggs, Planning and Development Director
Kandia Milton, Mayor's Office

ICJ:\ICORLEY\Detroit Edge Tool 328 Abatement Request.doc

February 8, 2007

Ms. Karen Hayes

Re: Questions from the City Council Fiscal Analysis Division Regarding Detroit
Regarding Detroit Edge Tool Company's Request for a PA 328 Tax
Abatement

Thank you, Ms. Hayes, for responding to the following questions:

1. It is admirable that Detroit Edge Tool Co. has been in the City of Detroit since 1885. But since 1978, the Detroit City Council has approved **eleven** PA 198 tax abatements for the company. Two abatements expired in 2004 and 2005; and one is expected to expire in 2008. As you know, on PA 198 abatements, the City receives 50 percent of one-half of the assessed value of the equipment invested in the company. Why is it critical that the company receive an 100% abatement under PA 328 on the new piece of equipment costing \$214,400?
2. What was the level of new jobs promised on the last two abatements? Did the company meet those goals? If not, please explain.
3. Please provide the following to help me conduct a cost/benefit analysis for the Council.
 - a. Current number of employees
 - b. Project number of new employees from the new personal property investment (although, I expect no new hires given the relative small level of investment)
 - c. Current payroll amount
 - d. Projected payroll amount after new investment
 - e. Useful life of the new equipment so I can estimate the annual property taxes if this equipment received rather a PA 198 abatement
 - f. The number of years you're requesting as the duration of the abatement
4. What are the top two or three challenges you face as a company in your industry? I assume your industry is tool and die. Who are your main customers? How do you "weather the storm" in this local economy?
5. Other questions usually brought up by Council:
 - a. In your current level of employees, how many are Detroiters? How many are minorities and female? How many minorities and women in management?
 - b. What apprenticeship and other programs/contributions you offer for Detroit?



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March 1, 2007

Mr. Irv Corley, Director
Fiscal Analysis Division
CITY OF DETROIT
Detroit, MI 48226

RE: Questions from the City Council Fiscal Analysis Division Regarding Detroit
Edge Tool Company's Request for a PA 328 Tax Abatement

Dear Mr. Corley:

Our response to your list of questions are as follows:

- 1) After reading the description of PA 198 and PA 328 and conferring with Mr. Clinton Griffin in the Planning and Development Department, we determined PA 328 was the most appropriate abatement number to apply for. It is our understanding from the wording of PA 198 it is for the renovation and expansion of a building, whereas PA 328 is for new personal property. We will be purchasing a new piece of personal property and not expanding the building. In addition, with business conditions in Michigan as they are, we are looking for assistance in reducing our costs so we can remain competitive and still reside in the City of Detroit and in the State of Michigan. We do have another facility in Roseville, Michigan, which is another option that has been considered in an effort to reduce costs. If we have a misunderstanding of the public acts, please contact me to discuss.
- 2) The level of the new jobs promised on the last two abatements was zero.
- 3) .
 - a) 64
 - b) -0-
 - c) \$70,000 per week
 - d) Any increase will come from promotions within which are unknown at this time.
 - e) 20 years
 - f) 12 years

- 4) Three challenges we face today in our industry are:
- a) Foreign Competition
 - b) Cost containment to remain competitive, profitable and hence, continue to manufacture in the United States.
 - c) Finding/Hiring/Retaining skilled machinists – requires well trained/educated machinists to operate the equipment.

Our main customers are in the following industries:

- a) Machine tool and metal forming industries
- b) Aerospace industry
- c) Scrap industry
- d) Computer chip/flat screen TV industry

We “weather the storm” in this economy by becoming more productive by hiring skilled machinists who are technically educated and can operate 2-3 machines at a time and containing costs by obtaining competitive bids; short lead times – quick deliveries, and by producing good quality products at reasonable and competitive prices.

- 5) .
- a) We currently have (8) employees residing in Detroit. We have a total of (17) employees who are minorities; (8) black males, (1) Hispanic male, (5) white females, and (1) black female. Of the (8) black males (1) is in management along with the (1) Hispanic male. Of the (5) white females (3) are in management and the (1) black female is in management.
 - b)
 - We have an approved apprenticeship program, by the State of Michigan, which we offer to our employees. It emphasizes surface grinding and CNC machining, which are our specialties. We also offer tuition reimbursement to our employees for classes that are directly related to their field of employment.
 - The owners of Detroit Edge Tool Co. are on advisory boards for community colleges in Wayne and Macomb counties.
 - Participate in annual “Clean-Sweep” program
 - Participate in annual “Angels Night Out” by staying after hours to observe and deter inappropriate activity.
 - Attended open houses for business owners to discuss safety issues sponsored by the 11th Precinct Police Station.
 - Served on the advisory board for Breithaupt Technical School and Focus Hope Technical School.
 - Gave tours and summer employment to students of Davis Aerospace Technical School.
 - Member of East Side Industrial Council and NEMA (Northeast Manufacturers Association)

I hope I have answered all of your questions to your satisfaction and understanding. If you have additional questions or require further explanation, please do not hesitate to contact me at 313-366-4120.

Thank you for your assistance and I look forward to working with you on this project.

Sincerely,

DETROIT EDGE TOOL CO.

Karen J. Hayes
Controller